

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CONSOLIDATED MANAGEMENT)	
SERVICES, INC. OF DAVIESS COUNTY, KENTUCKY,)	
FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY, AUTHORIZING AND PERMITTING)	
SAID COMPANY TO CONSTRUCT SEWAGE TREATMENT)	CASE NO.
FACILITIES CONSISTING OF PLANT ADDITION, AND)	92-083
IMPROVEMENTS TO THE EXISTING SEWER SYSTEM;)	
(2) APPROVAL OF THE PROPOSED PLAN OF)	
FINANCING OF SAID PROJECT; AND (3) APPROVAL)	
OF THE INCREASED SEWER RATES PROPOSED TO BE)	
CHARGED BY THE COMPANY TO CUSTOMERS OF THE)	
COMPANY)	

O R D E R

On October 5, 1992, Consolidated Management Services, Inc. ("Consolidated") filed its application for Commission approval to construct improvements to the existing sewer system, finance said project and increase sewer rates. Commission Staff, having performed a limited financial review of Consolidated's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposals. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, then this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 16th day of April, 1993.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF CONSOLIDATED)	
MANAGEMENT SERVICES, INC. OF DAVIESS)	
COUNTY, KENTUCKY, FOR (1) A CERTIFICATE)	
OF PUBLIC CONVENIENCE AND NECESSITY,)	
AUTHORIZING AND PERMITTING SAID COMPANY)	
TO CONSTRUCT SEWAGE TREATMENT FACILITIES)	CASE NO. 92-083
CONSISTING OF PLANT ADDITION, AND)	
IMPROVEMENTS TO THE EXISTING SEWER)	
SYSTEM; (2) APPROVAL OF THE PROPOSED)	
PLAN OF FINANCING OF SAID PROJECT; AND)	
(3) APPROVAL OF THE INCREASED SEWER)	
RATES PROPOSED TO BE CHARGED BY THE)	
COMPANY TO CUSTOMERS OF THE COMPANY)	

AMENDED STAFF REPORT

Prepared By: Carl Combs
Public Utility Financial
Analyst
Water and Sewer Revenue
Requirements Branch
Financial Analysis Division

Prepared By: Nicky Moore
Public Utility Rate
Analyst
Communications, Water and
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Rates and Research Division

AMENDED STAFF REPORT
ON
CONSOLIDATED MANAGEMENT SERVICES, INC.
CASE NO. 92-083

Preface

On October 5, 1992, Consolidated Management Services, Inc. ("Consolidated") filed an application with the Commission seeking to increase its revenues by approximately \$19,846 annually.

On January 4, 1993, the Commission Staff ("Staff") issued a report in which it recommend no increase in Consolidated's annual operating revenues. On January 13, 1993, Consolidated filed its response to the Staff Report which consisted entirely of a request for an informal conference.

On February 9, 1993, an informal conference was held at the Commission's offices, at which time Consolidated indicated it would file additional information by February 19, 1993. By February 18, 1993, Consolidated submitted the information.

By Order entered March 10, 1993, the Commission requested additional documentation and information from Consolidated. Consolidated responded to the Commission's Order on March 18, 1993.

Based upon the findings of this Amended Report, Staff recommends that Consolidated be authorized to increase its annual operating revenues by \$8,108.

The following are Staff's amendments to its report of January 4, 1993.

Operating Revenue

In its statement of operations, Consolidated shows operating revenues of \$115,084 and a pro-forma adjustment to annualize the revenue for end-of-period customers in the amount of \$2,194 to produce a total adjusted operating revenue of \$117,278 for the test year. This figure includes \$7,800 collected as tap-on fees which is not considered as part of the operating revenue. Therefore, the total actual adjusted operating revenue to be used in this report is \$109,478.

At the end of 1991, Consolidated served 393 residential flat rate customers, 395 residential measured rate customers and 9 commercial and public measured rate customers.

Operating Expenses

Pumping System - Labor and Expenses

In its report of January 4, 1993, Staff recommended denial of Consolidated's proposal to double the test-year pumping system labor and expenses of \$3,604. That recommendation was based upon the opinion of the Commission's Engineering Division that the treatment plant was being well maintained under a maintenance schedule which has the plant operator visit the plant every other day or on a part-time basis.

Subsequent to the informal conference of February 9, 1993, Consolidated filed a copy of a letter from W. Allan Kidd of the Division of Water of the Kentucky Natural Resources and Environmental Protection ("KNREP") Cabinet. Mr. Kidd states that

the Department of Environmental Protection ("Department") requires Consolidated to have a full-time operator due to the size of the treatment facility. Therefore, Staff recommends that annual pumping system labor and expenses of \$7,208¹ be included for rate-making purposes.

Treatment System - Sludge Hauling

In its report of January 4, 1993, Staff recommended denial of Consolidated's proposed sludge hauling expense of \$9,000, and instead recommended inclusion of sludge hauling expense of \$810 based upon 18 loads hauled in June of 1992. Consolidated reported no sludge hauling expense for 1990 and 1991. Therefore, over the 3-year period of 1990-1992, an average of 6 loads annually has been hauled from Consolidated's treatment plant.

The Commission's Engineering Division is of the opinion that \$4,500 is a reasonable allowance for sludge hauling based upon the 3-year average of 6 loads at \$750 per load, the amount of a quotation from Mike Carter of Franklin, Kentucky. Therefore, Staff recommends inclusion of annual sludge hauling expense of \$4,500 for rate-making purposes.

Treatment System - Labor and Expenses

In its report of January 4, 1993, Staff recommended denial of Consolidated's proposal to double the test-year amount of \$2,398. As mentioned previously in the section on pumping system - labor and expenses, Consolidated filed a copy of a letter from Mr. Kidd

¹ Test-year amount of \$3,604 x 2.

of the Division of Water of the KNREP Cabinet stating that the Department requires a full-time operator for a plant of Consolidated's size. Therefore, Staff recommends inclusion of annual treatment system labor and expenses of \$4,796² for rate-making purposes.

Summary

After consideration of the aforementioned adjustments, Consolidated's total operating expense would be \$100,050, an increase of \$9,692 over that recommended in the original Staff Report. Accordingly, Consolidated's revised revenue requirement is

² Test-year amount of \$2,398 x 2.

\$117,586³ and Staff recommends an increase in annual revenues of \$8,108.⁴

Rate Design

In its application, Consolidated proposed to revise the present rate structure. The purpose of the revision is to re-allocate certain revenue responsibilities among company customers by combining three separate rate schedules into a single flat rate for residential customers and a measured flat rate for commercial customers.

Staff is of the opinion that consolidating the two residential rates into one flat residential rate and to have a measured rate

³	Adjusted Operating Expense/Operating Ratio	\$100,050/.88
	Required Operating Revenue Exclusive of Provision for Income Taxes	\$113,693
	Required Operating Revenue without Tax Provision	\$113,693
	Less: Adjusted Operating Expense	<100,050>
	Net Operating Income Exclusive of Provision for Income Taxes	\$ 13,643
	Net Operating Income Exclusive of Provision for Income Taxes/Complement of Composite Tax Rate	\$ 13,643/.816
	Net Operating Income Inclusive of Provision for Income Taxes	\$ 16,719
	Adjusted Operating Expense	\$100,050
	Add: Net Operating Income with Income Tax Provision	\$ 16,719
	Add: Interest Expense on Long-Term Debt	817
	Revenue Requirement Inclusive of Income Tax Provision	<u>\$117,586</u>
⁴	Revised Revenue Requirement	\$ 117,586
	Less: Adjusted Test-Year Revenues	<109,478>
	Increase Required	<u>\$ 8,108</u>

for commercial customers is in the best interest of the customers and the company and should be approved.

The rates in Appendix A attached hereto will produce annual revenue in the amount of \$117,586.

Signatures

Carl Salyer Combs
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Water and Sewer Revenue
Requirements Branch
Financial Analysis Division

Nicky Moore
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Public Utility Rate Analyst
Communications, Water and
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APPENDIX A
TO STAFF REPORT CASE NO. 92-083

The Staff recommends the following rate be prescribed for customers of Consolidated Management Services, Inc.

<u>All Classes of Service</u>	<u>Rate</u>
Single Family Residential	\$12.20/mo.
Multi-Family (Per Dwelling Unit)	12.20/mo.
Commercial-Public	
First 7,500 gallons	12.20/minimum
Over 7,500 gallons	.0018/per gallon